

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Tony L. Hammond; and
Nanci E. Langley

Competitive Product Prices
Inbound International Expedited Services 2
(MC2009-10)

Docket No. CP2011-66

ORDER APPROVING CHANGES IN RATES FOR INBOUND
INTERNATIONAL EXPEDITED SERVICES 2

(Issued August 16, 2011)

I. INTRODUCTION

The Postal Service proposes a change in rates not of general applicability for Inbound International Expedited Services 2. For the reasons discussed below, the Commission approves the Postal Service's proposal.

II. BACKGROUND

On July 28, 2011, the Postal Service filed a notice announcing changes in rates not of general applicability for Inbound International Expedited Services 2 effective

January 1, 2012.¹ The Postal Service incorporates by reference a listing of countries in each pricing tier and the description of Inbound International Expedited Services 2 contained in the supporting documentation filed in Docket Nos. MC2009-10, CP2009-12, and CP2009-57. *Id.* at 2; *id.* n.4. It also filed a redacted copy of the 2012 rates and other supporting documentation including the supporting Governors' Decision, certified statements to comply with 39 U.S.C. 3633 and 39 CFR 3015.5(c)(2), and an application for non-public treatment of specific materials.

In Order No. 523, the Commission accepted the change in rates not of general applicability for Inbound International Expedited Services 2 effective January 1, 2011.² The Postal Service also provided a copy of the 2011 EMS Pay-for-Performance Plan as directed by the Commission.³

In accordance with the provisions of the EMS Cooperative of the Universal Postal Union (UPU), rates for the delivery of Inbound Express Mail International must be communicated to the UPU by August 31 of the year before which they are to take effect. As a member of the EMS Cooperative, the Postal Service may not change its rates for the coming year after August 31.

The Postal Service indicates that it proposes no changes to the classification of Inbound International Expedited Services 2 included with its Notice. Notice at 2. In Docket No. CP2009-57, the Postal Service explained that, "the two-tiered rate structure for Inbound Expedited Services exists as a result of the EMS Cooperative's expectation that all of its members will participate in the Pay-for-performance Plan." *Id.*

The Postal Service asserts that its filing demonstrates compliance with 39 U.S.C. 3633. *Id.* at 3.

¹ Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability and Application for Non-Public Treatment of Materials Filed Under Seal, July 28, 2011 (Notice).

² See Docket No. CP2010-90, Order Concerning Filing of Changes in Rates for Inbound International Expedited Services 2, August 23, 2010 (Order No. 523).

³ See Docket No. CP2010-90, Response of the United States Postal Service to Order No. 515, August 19, 2010.

In Order No. 784, the Commission gave notice of the docket, requested supplemental information, appointed a Public Representative, and provided the public with an opportunity to comment.⁴ On August 8, 2011, the Postal Service filed the supplemental information in response to Order No. 784 regarding its EMS Cooperative Report Cards.⁵

III. COMMENTS

Comments were filed by the Public Representative.⁶ No other interested parties submitted comments. The Public Representative states that his review of the supporting documentation indicates that the CY 2012 rates for Inbound International Expedited Services 2 reflect a substantial increase over the previous calendar year increases for CY 2011. *Id.* at 2. He maintains that the CY 2012 rates should generate sufficient revenues to cover their attributable costs for the calendar year. However, the Public Representative relates that calendar year cost may not apply to fiscal year cost coverage. *Id.* The Public Representative discusses the Commission's analysis of the factors that impacted the FY 2010 cost coverage for the Inbound EMS product, including the effect of calendar year rate changes, but reporting of financial performance by fiscal year; increased expenses and costs; and unfavorable currency exchange rates.⁷ PR Comments at 2-3.

The Public Representative recounts the Commission's finding that these determinants must be considered in the financial models used in setting rates in order to meet the requirements of 39 U.S.C. 3622(a)(2) and directs our attention to the

⁴ Notice and Order Concerning Filing of Changes in Rates for Inbound International Expedited Services 2, July 29, 2011 (Order No. 784).

⁵ Response of the United States Postal Service to Order No. 784, August 8, 2011.

⁶ Public Representative Comments on Postal Service Notice of Filing Changes in Rates Not of General Applicability for Inbound International Expedited Services 2, August 11, 2011 (PR Comments).

⁷ See Docket No. ACR2010, FY 2010 Annual Compliance Determination, March 29, 2011, at 146 (FY 2010 ACD).

possibility that these factors may impact the Inbound EMS product for the next fiscal year. *Id.* at 3.

IV. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the supplemental information, and the comments filed by the Public Representative.

Statutory requirements. Planned price changes for competitive products are reviewed pursuant to 39 U.S.C. 3633(a) and Commission regulations under 39 CFR 3015, which implements section 3633. In brief, these statutory and regulatory provisions require each competitive product to cover its attributable costs (39 U.S.C. 3633(a)(2)), prohibit the subsidization of competitive products by market dominant products (39 U.S.C. 3633(a)(1)), and require that competitive products collectively make an appropriate contribution to the recovery of the Postal Service's total institutional costs.

The Commission's analysis confirms that the Postal Service has proposed a significant increase from CY 2011 rates in the instant case, which should be sufficient to address the contingency concerns raised in the FY 2010 ACD. The timing of the rate increase comports with the UPU process and in conjunction with the previous CY 2011 rate increase should improve the performance of Inbound EMS. The Public Representative appropriately cautions that the projected financial performance for FY 2012 may warrant additional scrutiny, but recommends the Commission's approval of the CY 2012 rates.

Based on the information provided, the Commission finds that the proposed rates cover attributable costs, 39 U.S.C. 3633(a)(2), should not lead to the subsidization of competitive products by market dominant products, 39 U.S.C. 3633(a)(1), and should have a positive effect on competitive products' contribution to institutional costs, 39 U.S.C. 3633(a)(3). Thus, the proposed rates comport with the provisions applicable to rates for competitive products.

Other considerations. The Postal Service is directed to provide the Commission with the 2012 EMS Pay-for-Performance Plan within 30 days of its adoption by the EMS Cooperative of the UPU.

V. ORDERING PARAGRAPHS

It is ordered:

1. The proposed rates for Inbound International Expedited Services 2 scheduled to take effect January 1, 2012 are in accordance with the relevant statutory and regulatory requirements of 39 U.S.C. 3633(a) and 39 CFR 3015.7.
2. The Postal Service is directed to provide the Commission the 2012 EMS Pay-for-Performance Plan within 30 days of its adoption by the EMS Cooperative of the Universal Postal Union.

By the Commission.

Shoshana M. Grove
Secretary